



345 Park Avenue  
New York, NY 10154

## Independent Accountants' Report

The Board of Directors  
Verizon Communications:

We have examined management's assertion, included in the accompanying *Report of Management on Compliance with Applicable Requirements of 47 C.F.R. Section 64.1310*, that Verizon Communications ("the Company") complied with Section 64.1310(a)(1) of the Federal Communications Commission's ("FCC's") Rules and Regulations in CC Docket 96-128 as of July 1, 2004. Management is responsible for the Company's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

In our opinion, management's assertion that the Company complied with the aforementioned requirements as of July 1, 2004, is fairly stated in all material respects, based upon compliance factors set forth in Section 64.1320(c) of the FCC's Rules and Regulations and in management's assertion.

This report is intended solely for the information and use of the Company, the FCC, and applicable Facilities-Based Long Distance Carriers and Payphone Service Providers and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

New York, New York  
July 1, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

## **Report of Management on Compliance with Applicable Requirements of 47 C.F.R. Section 64.1310**

Management of Verizon<sup>1</sup> (“Verizon” or the “Company”) is responsible for establishing and maintaining the internal controls over its pay telephone call tracking system necessary for compliance with 47 C.F.R. Section 64.1310, as discussed in the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has evaluated the Company’s compliance with the applicable requirements of 47 C.F.R. Section 64.1310, using the criteria in 47 C.F.R. Section 64.1320(c) as the framework for the evaluation. Based on this evaluation, we assert that as of July 1, 2004, the Company complies with the applicable requirements of 47 C.F.R. Section 64.1310 in all material respects as described below. Verizon provides the following information regarding its compliance.

Verizon has two separate payphone compensation environments: 1) Long distance operations<sup>2</sup> (“LD Operations”), consisting of interLATA and intraLATA toll services provided by Verizon long distance carriers, and 2) Local exchange carrier operations<sup>3</sup> (“LEC Operations”), consisting of local exchange and intraLATA toll services provided by Verizon’s local exchange carriers. The assertions associated with each environment are described separately below.

### **I. LD Operations**

Verizon acts as the Completing Carrier<sup>4</sup> in the following call scenarios:

1. VLD postpaid calling card calls
2. VLD postpaid toll-free calls
3. VLD operator services calls
4. VLD postpaid personal toll-free calls
5. VSSI prepaid calling card calls
6. VSSI prepaid calling card customer service calls
7. VSSI 1-800-USE-THE-VZ calls

---

<sup>1</sup> Verizon’s domestic local exchange carriers (LECs) and long distance carriers (LDs) as defined in footnotes 2 and 3.

<sup>2</sup> Verizon’s LD carriers consist of Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance) and Verizon Select Services, Inc.

<sup>3</sup> Verizon’s domestic local exchange carriers consist of the following companies: Verizon New York Inc., Verizon New England Inc., Verizon Washington, DC Inc., Verizon Maryland Inc., Verizon Virginia Inc., Verizon West Virginia Inc., Verizon New Jersey Inc., Verizon Pennsylvania Inc., Verizon Delaware Inc., Verizon California Inc., Verizon Florida Inc., Verizon Hawaii Inc., Verizon Mid-States (Contel of the South, Inc.), Verizon North Inc., Verizon Northwest Inc., Verizon South Inc., Verizon Southwest (GTE Southwest Inc.), Verizon West Coast Inc., Puerto Rico Telephone Company and any successor or assign of such company. Puerto Rico Telephone Company is the subject of a separate audit and report.

<sup>4</sup> As defined in the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, paragraph 64.1300 (a), a Completing Carrier is a long distance carrier or switch-based long distance reseller that completes a coinless access code or subscriber toll-free payphone call or a local exchange carrier that completes a local, coinless access code or subscriber toll-free payphone call.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

Verizon LD Operations uses Billing Concepts, Inc. (BCI) to perform payphone compensation settlement. Certain assertions included in this report depend in whole or in part upon BCI performance. In support of these assertions, Verizon relies upon a contractual agreement between Verizon and BCI (BCI Contract), which requires BCI compliance with CC Docket No. 96-128. In addition, BCI has provided Verizon an independent third-party audit report to verify that effective controls and procedures relating to these assertions have been established and will be maintained by BCI. Verizon has not conducted an independent evaluation and makes these assertions based solely on the BCI Contract and third-party audit report of BCI's operations.

The assertions for Verizon LD Operations are made starting with the initial point in call record processing at which Verizon has visibility to the call tracking data. Verizon represents the following facts regarding its LD Operations in its role as the Completing Carrier. These facts are in fulfillment of the obligation of Verizon as described at 47 C.F.R. Section 64.1320(c):

**A. Verizon's procedures accurately track calls to completion, as follows:**

1. Verizon's systems track completed calls, which are calls answered by a third party.
2. Verizon's systems are able to generate the following reports on a quarterly basis, and the third-party audit report of BCI verified that BCI's systems are able to generate the reports and report data for which BCI is responsible, as follows:
  - a) A list of the toll-free and access numbers dialed and completed from each Payphone Service Provider's (PSP's) payphones along with the ANI (Automatic Number Identification) digits for each payphone.
  - b) The volume of calls for each toll-free and access number that was completed by Verizon.
  - c) The name(s), address(es), and phone number(s) of the person(s) responsible for handling Verizon's payphone compensation.
  - d) The Carrier Identification Code (CIC) or trunk routing group of all facilities-based long distance carriers that routed calls to Verizon, categorized according to toll-free and access code numbers.
3. Verizon stores for 18 months all of the data required for the reports described in paragraph 2 above, and the time and date of every call identified in its quarterly reports to PSPs, and the third-party audit report of BCI verified that BCI also stores this data for 18 months.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

4. Verizon's procedures for identifying PSPs are complete and accurate, and the third-party audit report of BCI processes verified that BCI procedures for identifying PSPs are also complete and accurate.
5. Verizon's procedures for validating payphone ANIs are complete and accurate, subject to provision of the relevant information by BCI, the completeness and accuracy of which the third-party audit report of BCI processes verified.

**B. Verizon has identified persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls, as follows:**

1. Verizon has identified personnel responsible for drafting and maintaining the business requirements associated with call tracking, payphone compensation, and resolving disputes concerning payphone-completed calls.
2. Verizon has identified personnel responsible for the development and maintenance of systems used in the collection and reporting of payphone call data, and the third-party audit report of BCI verified that BCI has designated personnel responsible for the development and maintenance of the systems under their control used in the collection and reporting of payphone call data.
3. Verizon has identified personnel responsible for the implementation and maintenance of procedures that are utilized in creating final compensation data sets and the third-party audit report of BCI verified that BCI has designated personnel responsible for the implementation and maintenance of procedures under their control that are utilized in creating final compensation data sets.
4. Verizon has identified personnel who are responsible for developing compensation-tracking reports and the third-party audit report of BCI verified that BCI has designated personnel who are responsible for developing compensation-tracking reports under their control.
5. Verizon has identified personnel who are responsible for payphone compensation dispute resolution and the third-party audit report of BCI verified that BCI has designated personnel who are responsible for the payphone compensation dispute resolution under their control.
6. Verizon has identified personnel responsible for managing coordination with the payphone clearinghouse services provider, Billing Concepts, Inc.

**C. Verizon has effective data monitoring procedures, as follows:**

1. Verizon has the ability to prepare quarterly reports on payphone call counts, PSP identities and numbers dialed and completed, and the third-party audit report of BCI verified that BCI has the ability to prepare the quarterly reports on payphone call counts, PSP identities and numbers dialed and completed under their control.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

2. Verizon performs data-monitoring procedures on call record volumes entering the payphone compensation systems.
3. Verizon performs fraud-monitoring procedures to identify potentially illegitimate payphone calls.
4. Verizon has the ability to investigate and resolve PSP disputes.

**D. Verizon adheres to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability, as follows:**

1. Verizon has security controls in place to control access to and monitor call-tracking data, and the third-party audit report of BCI verified that BCI has controls in place to control access to and monitor call-tracking data.
2. Verizon has security controls in place to control access to and monitor the payment disbursement system, and the third-party audit report of BCI verified that BCI also maintains such controls.
3. Verizon has a department that is responsible for making software changes that affect payphone compensation, and the third-party audit report of BCI verified that BCI also maintains such a department.
4. Verizon has established protocols to implement and test software changes affecting payphone compensation, and the third-party audit report of BCI verified that BCI also maintains such protocols.
5. Verizon has application controls in place to ensure that network changes, external to payphone compensation, do not negatively impact payphone compensation.

**E. Verizon creates a compensable payphone call file by matching call detail records against payphone identifiers, as follows:**

1. Verizon utilizes switch data and database look-ups to populate the date, originating ANI, dialed number, and aggregate data into a Compensable Call File.
2. A compensable call for Verizon is one originating at a payphone and completed by Verizon.
3. Verizon uses payphone-specific identifiers (info-digits or ANI lists) to identify a compensable payphone call record, and the third-party audit report of BCI verified that BCI also maintains such identifiers.
4. Verizon applies validation and control procedures to compile the Compensable Call File.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

5. Verizon uses a "per-call rate" of \$.24 for compensating PSPs, and the third-party audit report of BCI processes verified that BCI compensates payphone providers based on this rate.

**F. Verizon has procedures to incorporate call data into required reports, as follows:**

1. Verizon's systems are able to generate, and the third-party audit report of BCI verified that BCI's systems are able to generate for the systems under their control, the following reports on a quarterly basis:
  - a) A list of the toll-free and access numbers dialed and completed from each PSP's payphones along with the ANI for each payphone.
  - b) The volume of calls for each toll-free and access number completed by Verizon.
  - c) The name(s), address(es), and phone number(s) of the person(s) responsible for handling Verizon's payphone compensation.
  - d) The Carrier Identification Code (CIC) or trunk routing group of all facilities-based LD carriers that routed calls to Verizon, categorized according to toll-free and access code numbers.
2. Verizon possesses a valid list of payphone owners identified by ANI, and the third-party audit report of BCI verified that BCI possesses a valid list of payphone owners identified by ANI.

**G. Verizon has implemented procedures and controls needed to resolve payphone compensation disputes, as follows:**

1. Verizon has the ability to investigate and resolve PSP disputes.
2. Verizon has designated personnel who are responsible for payphone compensation dispute resolution.
3. Verizon will file a statement that includes the names, addresses and phone numbers for persons responsible for handling payments and resolving disputes. This statement will be updated within 60 days of any changes of such persons. The statement will be filed with the FCC Secretary and made available to facilities-based LD carriers and PSPs.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

**H. Verizon has contracted an independent third-party auditor to test critical controls and procedures to verify that errors are immaterial, as follows:**

1. Verizon has procedures to identify payphone-originated calls, and the third-party audit report of BCI verified that BCI also has such procedures.
2. Verizon has procedures to capture dial-around calls.
3. Verizon has procedures to exclude incomplete calls from the Compensable Call File.
4. Verizon has procedures to accurately populate call record data in the Compensable Call File.
5. Verizon has procedures to exclude commissioned calls from the Compensable Call File.

**I. Verizon has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Verizon owes compensation, as follows:**

1. Verizon has business rules that identify calls originated from payphones, and the third-party audit report of BCI verified that BCI also has such business rules.
2. Verizon has business rules that identify compensable payphone calls.
3. Verizon has business rules that identify incomplete or otherwise non-compensable calls.
4. Verizon has business rules to determine the identities of the PSPs to which Verizon owes compensation.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

**Verizon LD Operations – Required Disclosures per 64.1320(d)**

Verizon represents the following facts regarding its LD Operations in its role as the Completing Carrier. These facts are in fulfillment of the obligations of Verizon as specified at 47 C.F.R. Section 64.1320(d):

1. Verizon criteria for identifying calls originating from payphones include call record info-digit identification of 07, 25, 27, 29 or 70. In addition, originating ANI is also used to identify payphone-originated calls.
2. Verizon's criteria for identifying compensable payphone calls include all calls with info-digits 07, 25, 27, 29 or 70 (or with a payphone-identified originating ANI) and call duration greater than zero (0). Calls originating from a payphone where Verizon has a written compensation agreement with the payphone owner are excluded from the Compensable Call File.
3. Verizon's criteria for identifying incomplete or otherwise non-compensable calls include: (1) calls that do not have info-digits 07, 25, 27, 29 or 70 (or that are not from a payphone-identified originating ANI), (2) calls with a duration of zero (0), or (3) calls that originate from payphones where Verizon has a written compensation agreement with the payphone owner.
4. Verizon's criteria used to determine the identities of the PSPs to which Verizon owes compensation are established by BCI, Verizon LD's clearinghouse for settlements.
5. The type of information that Verizon needs from the PSPs in order to compensate the PSPs is determined by BCI.



**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

**II. LEC Operations**

Verizon is the “Completing Carrier” for the following call scenarios:

IntraLATA toll-free and access code calls that originate and terminate in the same LEC service area.

Verizon represents the following facts regarding its LEC Operations in its role as the Completing Carrier. These facts are in fulfillment of the obligation of Verizon as described at 47 C.F.R. Section 64.1320(c):

**A. Verizon’s procedures accurately track calls to completion, as follows:**

1. Verizon’s system tracks completed calls, which are calls answered by a third party.
2. Verizon’s systems are able to generate the following reports on a quarterly basis:
  - a) A list of the toll-free and access numbers dialed and completed from each PSP’s payphones along with the ANI digits for each payphone.
  - b) The volume of calls for each toll-free and access number that was completed by Verizon.
  - c) The name(s), address(es), and phone number(s) of the person(s) responsible for handling Verizon’s payphone compensation.
3. Verizon stores for 18 months all of the data required for the reports described in paragraph 2 above, and the time and date of every call identified in its quarterly reports to PSPs.
4. Verizon’s procedures for identifying PSPs are complete and accurate.
5. Verizon’s procedures for validating payphone ANIs are complete and accurate.

**B. Verizon has identified a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls, as follows:**

1. Verizon has identified personnel responsible for drafting and maintaining the business requirements associated with call tracking, payphone compensation, and resolving disputes concerning payphone-completed calls.
2. Verizon has identified personnel responsible for the development and maintenance of systems used in the collection and reporting of payphone call data.
3. Verizon has identified personnel responsible for the implementation and maintenance of procedures that are utilized in creating final compensation data sets.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

4. Verizon has identified personnel who are responsible for developing compensation-tracking reports.
5. Verizon has identified personnel who are responsible for payphone compensation dispute resolution.

**C. Verizon has effective data monitoring procedures, as follows:**

1. Verizon has the ability to prepare quarterly reports on payphone call counts, PSP identities and numbers dialed and completed.
2. Verizon performs data-monitoring procedures on call record volumes entering the payphone compensation systems.
3. Verizon performs fraud-monitoring procedures to identify potentially illegitimate payphone calls.
4. Verizon has the ability to investigate and resolve PSP disputes.

**D. Verizon adheres to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability, as follows:**

1. Verizon has security controls in place to control access to and monitor call-tracking data.
2. Verizon has security controls in place to control access to and monitor the payment disbursement system.
3. Verizon has a department that is responsible for making software changes that affect payphone compensation.
4. Verizon has established protocols to implement and test software changes affecting payphone compensation.
5. Verizon has application controls in place to ensure that network changes, external to payphone compensation, do not negatively impact payphone compensation.

**E. Verizon creates a compensable payphone call file by matching call detail records against payphone identifiers, as follows:**

1. Verizon utilizes switch data and database look-ups to populate the date, originating ANI, dialed number, and aggregate data into a Compensable Call File.
2. A compensable call for Verizon is one originating at a payphone and completed by Verizon.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

3. Verizon uses payphone-specific identifiers (coin indicator) to identify a compensable payphone call record.
4. Verizon applies validation and control procedures to compile the Compensable Call File.
5. Verizon uses a "per-call rate" of \$.24 for compensating PSPs.

**F. Verizon has procedures to incorporate call data into required reports, as follows:**

1. Verizon's systems are able to generate the following reports on a quarterly basis:
  - a) A list of the toll-free and access numbers dialed and completed from each PSP's payphones along with the ANI for each payphone.
  - b) The volume of calls for each toll-free and access number completed by Verizon.
  - c) The name(s), address(es), and phone number(s) of the person(s) responsible for handling Verizon's payphone compensation.
2. Verizon possesses a valid list of payphone owners identified by ANI.

**G. Verizon has implemented procedures and controls needed to resolve payphone compensation disputes, as follows:**

1. Verizon has the ability to investigate and resolve PSP disputes.
2. Verizon has designated personnel who are responsible for payphone compensation dispute resolution.
3. Verizon will file a statement that includes the names, addresses and phone numbers for persons responsible for handling payments and resolving disputes. This statement will be updated within 60 days of any changes of such persons. The statement will be filed with the FCC Secretary and made available to facilities-based LD carriers and PSPs.

**H. Verizon has contracted an independent third-party auditor to test critical controls and procedures to verify that errors are immaterial, as follows:**

1. Verizon has procedures to identify payphone-originated calls.
2. Verizon has procedures to capture dial-around calls.
3. Verizon has procedures to exclude incomplete calls from the Compensable Call File.

**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

4. Verizon has procedures to accurately populate call record data in the Compensable Call File.
5. Verizon has procedures to exclude commissioned calls from the Compensable Call File.
- I. Verizon has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Verizon owes compensation, as follows:**
  1. Verizon has business rules that identify calls originated from payphones.
  2. Verizon has business rules that identify compensable payphone calls.
  3. Verizon has business rules that identify incomplete or otherwise non-compensable calls.
  4. Verizon has business rules to determine the identities of the PSPs to which Verizon owes compensation.

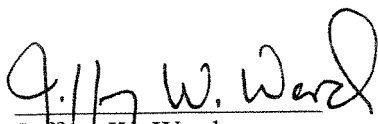
**Report of Management on Compliance with Applicable Requirements  
of 47 C.F.R. Section 64.1310**

**Verizon LEC Operations – Required Disclosures per 64.1320(d)**

Verizon represents the following facts regarding its LEC Operations in its role as the Completing Carrier. These facts are in fulfillment of the obligations of Verizon as specified at 47 C.F.R. Section 64.1320(d):

1. Verizon's criterion for identifying calls originating from payphones is a coin-indicator populated in the call record.
2. Verizon's criteria for identifying compensable payphone calls include all calls with the coin-indicator populated and call duration greater than zero (0). Calls originating from a payphone where Verizon LEC has a written compensation agreement with the payphone owner are excluded from the Compensable Call File.
3. Verizon's criteria for identifying incomplete or otherwise non-compensable calls include: (1) calls that do not have the coin-indicator populated, (2) calls with a duration of zero (0), or (3) calls that originate from payphones where Verizon has a written compensation agreement with the payphone owner.
4. Verizon's criteria used to determine the identities of the PSPs to which Verizon owes compensation are established during the Sales Order Process. During the Sales Order Process, all orders relating to payphones require information, consisting of PSP name, address, ANI and ANI location, to determine the identities of the PSPs.
5. The type of information that Verizon LEC needs from the PSPs in order to compensate the PSPs is the correct identification information, consisting of PSP name, address, ANI and ANI location.

Verizon Communications Inc.

  
Jeffrey W. Ward

Senior Vice President Regulatory Compliance  
July 1, 2004